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INFORMATION REPORT

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1. As a result of meetings in Moscow during September 1954, the following directives have been given by the Hungarian Party leaders to Hungarian industry:
 - a. Norms in all war industries are to be abolished, but reasonable standards are to be maintained. This is with a view to enabling the workmen to achieve a higher standard of efficiency and turn out a high class product.
 - b. The directive originally proposed some months ago for a slowing down of the heavy industries in favor of the light industries must now be implemented. This was delayed, while some fervent seekers of notice in the Party in Hungary, had advocated postponement, expressing the fear that the war industries would suffer. It is now explained that the order does not refer to the war industries and in any case the international situation allows of the step since the easing of tension after the easy admission of defeat by the French in Indo-China. Reference is also made to the possible shifting of the weight in the war industries to altogether new weapons. It is thus admitted that in the long run the war industries in Hungary might suffer through the new directive indirectly.
 - c. The priority to be accorded in the light industries will be for those making articles for export and for home consumption of such goods, which would otherwise of necessity have to be imported.
2. The existing reasons for the deplorable situation in the export market were examined and it was established that the constant deterioration of plants and frequent breakdown in electric power supply were the main factors. Another factor was the inferior quality of steel, which contained too much sand and gas and was not hard enough. It was agreed that excessive norms led to too high a proportion of rejects. These have been up to 30% in some machine factories, but the Hungarians did not dare to quote this figure to the Russians. The Hungarians

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informed the Russians that it was difficult to supply goods to them in payment of debts at an unreduced scale and at the same time carry on an export drive towards other destinations. For instance, the Railroad Car Factory, Győr was making tank cars and freight cars as priorities for the USSR and the Ganz Company was manufacturing Diesel trains for the USSR, while orders, especially to Ganz from Argentina could not be fulfilled as fast as it had been hoped. To this the Russians paid no attention, insisting on deliveries to the USSR on the same scale.

3. However, in order to alleviate the situation, the USSR granted Hungary a loan of 100,000,000 rubles at 2% p.a. in the form of vanadium, chrome, cobalt, and some consumer goods other than foodstuffs.

Comment: It was noted that Ernő Gerő, Zoltán Vas, and János Boldoczki were away from Budapest during the entire month of September 1954. The extended absence of the two leading economists (Gerő and Vas) and Foreign Minister Boldoczki at a time when Hungary was and still is experiencing a serious economic crisis, lends credence to the talks in Moscow referred to in this report.

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